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AGENDA ITEM 7

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Self-Funded Programs Financial Third-Quarter Review

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information

IV. ANALYSIS:

Background

The purpose of this report is to provide the Board with an update on the status of the financial reserves for the Self-Funded health plans. Because of the timing of this report trend highlights are provided for both the 2nd and 3rd quarters.

Anticipated Experience Due to Reserve Draw-downs

A portion of the excess reserves were used to reduce the 2005 premiums. As a direct result of this approach, the loss ratio for the entire year is expected to exceed 100%. At the end of the 2nd Quarter, the overall loss ratio for the self-funded plans was 105%. This resulted in an underwriting loss of $26.5 million. As of the end of the 3rd Quarter, the overall loss ratio for the self-funded plans remains at 105%. This resulted in an underwriting loss of $42 million. Assets above the actuarial reserve requirements, as of the end of the 3rd Quarter, were $158 million.

Results for the 2nd Quarter of 2005

For PERSCare basic and the Medicare supplement plans, the 2nd quarter produced results generally in line with expectations. PERS Choice basic, however, experienced an unanticipated increase in medical claims. Blue Cross has investigated this and has determined that the main cause of the increase was due to the number and size of large claims (over $50,000). Within the large claims, there was a significant increase in dialysis claims. These claims had an average cost to the plan of $237,000. While individuals with this condition are transferred to Medicare, this coverage shift does not occur until after thirty months of treatments.

Results for the 3rd Quarter of 2005

For three of the four self-funded plans, the 3rd quarter continued to produce results consistent with expectations. The PERS Choice basic plan continued to show higher than expected expenses primarily due to large (over $50,000) claims. The experience effect of this was somewhat offset by a level pattern of claims for the pharmacy component of the Choice basic plan.

The two supplement to Medicare plans had nine month loss ratios considerably above break-even. PERS Choice supplement had a loss ratio of 115% while PERSCare supplement had a loss ratio of 120%. This was a modest improvement over the second quarter results of 118% and 122% respectively. This magnitude of loss ratios were anticipated as the reserve drawdown for the rate determination considerably reduced the premium charged for 2005.

At current levels, at the end of the year the surplus position for PERS Choice basic will be below projections. This should however not be a problem as the 2006 premium structure anticipated surplus usage amounting to only one-third of projected.

As was noted in the 1st quarter's report, the Medicare supplemental plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the supplement plans. The basic plans tend to gradually increase in cost throughout the year due to the gradual effect of aging and inflation. Thus there is an expectation that subsequent quarters will show little increases for the supplemental plans while the base plans are expected to have their worse experience later in the year. The experience appears to be following these patterns.

The following attachments provide more detailed financial and trend information.

Attachment 1

This attachment displays summary results for the first nine months of 2004 and 2005 as well as the prior two years. Although the supplement plans continued with high loss ratios (120% for Care and 115% for Choice), this represented a decrease from the six months values. This had been expected due to the combination of a deliberate use of surplus and the Medicare effect as noted above

Attachment 2

This attachment presents the per-member-per-month (pmpm) medical and pharmacy claims costs for five quarters beginning with the third quarter of 2004.

Choice basic had an increase in year to year medical costs of 20% - from $188 per member per month (pmpm) to $226 pmpm. This plan also had a 22% increase in pharmacy costs from the third quarter of 2004 ($55 pmpm) to the third quarter of 2005 ($67 pmpm). But most of this increase occurred in the first quarter of 2005. In fact, the pmpm for Choice basic pharmacy costs has remained at $67 for three consecutive quarters.

Attachment 3

Attachment 3 presents asset values and asset changes for the self-funded health plans.

All four plans experienced negative cash flows (lines 2 and 8). Additionally, the overall reserve requirement increased by $16 million (line 17 - line 16). Most ($14 million) of this increase came from the PERS Choice basic plan (line 11 – line 10). As of June 30, 2005, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over $158 million. The asset level continues to be positive.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve.

The overall level of the assets remains strong. The year end asset level should end up close to expectations. There will be some variance in individual plan results. The PERS Choice basic plan will have assets lower than was projected. But this should not pose a problem in maintaining adequate reserves for the Choice basic plan through 2006.

Looking Forward

There is an expectation that the final quarter will show little in the way of cost increases for the supplemental plans while the base plans are expected to continue to increase modestly.

The overall financial position of the program remains strong. The PERS Choice basic plan is below projections while the other three plans are running close to what had been anticipated. Rate actions by the Board have provided a safety margin for the 2006 plan year. Even with the unanticipated claim volume in the PERS Choice basic plan, assets continue to be sufficient to fund benefits and to maintain adequate reserves.

V. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

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VI. RESULTS/COSTS:

This item is presented as information only.

Richard J. Krolak, Chief
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Attachments